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UNITED STATES DISTRICT COURT SOUTHERN DISTRICT OF CALIFORNIA

MICHAEL MONTGOMERY,

Plaintiff,

WAL-MART STORES, INC.;

VS.

KINDERHOOK INDUSTRIES.

FUND II. L.P.: CRESTWOOD HOLDINGS, INC.; BERGAN, L.L.C.; HN ELMBURG: ROBERT

ELMBURG; ERIC'ELMBURG: ROCKY FLICK; HOME DEPOT

U.S.A., INC.; DOES 1 through 20 inclusive.

Defendants.

CASE NO. 12CV3057 JLS (DHB)

ORDER (1) GRANTING MOTIONS TO DISMISS: AND, (2) DENYING AS MOOT MOTIONS TO STRIKE

(ECF Nos. 29, 31, 40, 41, and 42)

Presently before the Court are five factually and legally similar motions to dismiss filed by Defendants Robert Elmburg, John Elmburg, Eric Elmburg, Rocky Flick ("Flick"), Bergan, L.L.C. ("Bergan"), and Crestwood Holdings, Inc. ("Crestwood Holdings," and collectively, "the Oklahoma Defendants"). (ECF Nos. 29, 31, 40, 41, and 42). Also before the Court is Plaintiff Michael Montgomery's ("Plaintiff," or "Montgomery") consolidated response in opposition, (Resp. in Opp'n, ECF No. 51), and the Oklahoma Defendants' consolidated reply in support, (Reply in Supp., ECF No. 56). A sixth motion to dismiss, (ECF No. 46), was also

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filed by Defendants Kinderhook Industries II, L.P., Kinderhook Industries, L.L.C., and Kinderhook Capital Fund II, L.P., ("the Kinderhook Defendants"), but all case activity with respect to those parties has been stayed pending finalization of a settlement agreement.

Having considered the parties' arguments and the law, the Court **GRANTS** the Oklahoma Defendants' motions to dismiss. Plaintiff's Seventh and Ninth Causes of Action are **DISMISSED WITHOUT PREJUDICE**.

BACKGROUND

In this products liability action, Plaintiff, a California resident, has sued eleven separate defendants allegedly responsible for the distribution and sale of defective portable gasoline containers designed and manufactured by Blitz U.S.A., Inc. ("Blitz"). Plaintiff's claims arise from a June 20, 2002 accident in which he suffered severe injuries and burns from the explosion of a Blitz gas container.

On May 6, 2011, Plaintiff filed a prior action against Blitz, arising from this incident. *See Montgomery v. Blitz U.S.A., Inc.*, 11CV999 JLS (DHB). This litigation was stayed on November 10, 2011 due to Blitz's filing of a bankruptcy petition in the U.S. Bankruptcy Court for the District of Delaware. Blitz's bankruptcy proceedings remain pending and the prior litigation remains subject to an automatic stay.

On December 24, 2012, Plaintiff filed this lawsuit, targeting retailers of Blitz's gas containers, including Wal-Mart Stores, Inc. and Home Depot U.S.A., Inc., as well as several other entities related to Blitz. The motions to dismiss currently pending before the Court involve Plaintiff's claims against three former Blitz stockholders, a current Blitz officer, Blitz's former parent company, and a company formerly related to Blitz that now manufactures and sells pet products. All six Defendants reside in Oklahoma. Plaintiff brings no claims against Blitz in the current action, nor are any of the Oklahoma Defendants named as defendants in the prior litigation.

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The Oklahoma Defendants each have an extensive business relationship with Blitz. Defendant John Elmburg and his wife, or their respective living trusts, formerly owned a majority interest in Blitz, and their sons, Defendants Robert Elmburg and Eric Elmburg, each owned a minority interest. In October 2005, the Elmburgs exchanged their Blitz stock for equal shares of stock in Defendant Crestwood Holdings, which subsequently served as the parent corporation of Blitz until September 2007. From October 2005 to September 2007, John Elmburg and his wife owned a majority interest in Crestwood Holdings, and Robert and Eric Elmburg each owned a minority interest. Crestwood Holdings then sold all of its Blitz stock in September 2007 to an unrelated entity, Blitz Acquisitions. The Elmburgs ceased to have any direct or indirect ownership interest in Blitz at that time, as did Crestwood Holdings.

Defendant Flick is currently the Chief Executive Officer of Blitz and formerly held the positions of Vice President of Sales & Marketing, Vice President, General Manager, and President. Flick began his employment with Blitz in 1988 and remains employed with Blitz to this day.

Finally, Defendant Bergan is a manufacturer of pet products that was spun off from Blitz in October 2006. Following the spinoff, Blitz and Bergan were separate entities, each owned by the parent company, Crestwood Holdings.

Plaintiff alleges that the Elmburgs and Flick were "active participants who directed and controlled . . . [Blitz's] decision to sell portable gas containers knowing the risk posed to consumers" and "strategically used [the named] corporate defendants as their own to transfer assets in the face of mounting litigation [against Blitz] in exchange for personal profit." (Resp. in Opp'n 1–2, ECF No. 51). The Oklahoma Defendants in turn move to dismiss the claims against them for lack of personal jurisdiction, failure to state a claim, and lack of standing, and also move to strike Plaintiff's request for punitive damages and attorney's fees.

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MOTIONS TO DISMISS FOR LACK OF PERSONAL JURISDICTION

1. Legal Standard

Federal Rule of Civil Procedure 12(b)(2) allows district courts to dismiss an action for lack of personal jurisdiction. "Where defendants move to dismiss a complaint for lack of personal jurisdiction, plaintiffs bear the burden of demonstrating that jurisdiction is appropriate." *Dole Food Co. Inc. v. Watts*, 303 F.3d 1104, 1108 (9th Cir. 2002). "The court may consider evidence presented in affidavits to assist in its determination and may order discovery on the jurisdictional issues." *Doe v. Unocal Corp.*, 248 F.3d 915, 922 (9th Cir. 2001) (citing *Data Disc, Inc. v. Sys. Tech. Ass'n, Inc.*, 557 F.2d 1280, 1285 (9th Cir. 1977)). "When a district court acts on the defendant's motion to dismiss without holding an evidentiary hearing, the plaintiff need make only a prima facie showing of jurisdictional facts to withstand a motion to dismiss." *Id.* (citing *Ballard v. Savage*, 65 F.3d 1495, 1498 (9th Cir. 1995)); *see also Data Disc*, 557 F.2d at 1285 ("[I]t is necessary only for [the plaintiff] to demonstrate facts which support a finding of jurisdiction in order to avoid a motion to dismiss.").

"Unless directly contravened, [Plaintiff's] version of the facts is taken as true, and 'conflicts between the facts contained in the parties' affidavits must be resolved in [Plaintiff's] favor for purposes of deciding whether a prima facie case for personal jurisdiction exists." *Harris Rutsky & Co. Ins. Servs., Inc. v. Bell & Clements Ltd.*, 328 F.3d 1122, 1129 (9th Cir. 2003) (citing *Unocal Corp.*, 248 F.3d at 922); *see also Bancroft & Masters, Inc. v. Augusta Nat'l, Inc.*, 223 F.3d 1082, 1087 (9th Cir. 2000) ("Because the prima facie jurisdictional analysis requires us to accept the plaintiff's allegations as true, we must adopt [Plaintiff]'s version of events"). A court may not, however, "assume the truth of allegations in a pleading which are contradicted by affidavit." *Alexander v. Circus Enters., Inc.*, 972 F.2d 261, 262 (9th Cir. 1992) (internal quotations omitted).

California's long-arm jurisdictional statute permits the exercise of personal

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jurisdiction so long as it comports with federal due process. *See* Cal. Civ. Proc. Code § 410.10; *Schwarzenegger v. Fred Martin Motor Co.*, 374 F.3d 797, 800–01 (9th Cir. 2004). "For a court to exercise personal jurisdiction over a nonresident defendant, that defendant must have at least 'minimum contacts' with the relevant forum such that the exercise of jurisdiction 'does not offend traditional notions of fair play and substantial justice." *Fred Martin Motor*, 374 F.3d at 801 (quoting *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945)) (internal quotation marks omitted).

2. Analysis

The Oklahoma Defendants move to dismiss the claims against them for lack of personal jurisdiction.¹ They contend that Plaintiff has failed to allege facts establishing that they have sufficient contacts with California to satisfy due process.

A federal district court may exercise either general or specific personal jurisdiction. *Helicopteros Nacionales de Colombia, S.A. v. Hall*, 466 U.S. 408, 414–15 (1984). To establish general jurisdiction, a plaintiff must demonstrate that the defendant has the kind of "continuous and systematic" contacts with the forum state that "approximate physical presence." *Bancroft & Masters, Inc. v. Augusta Nat'l Inc.*, 223 F.3d 1082, 1086 (9th Cir. 2000). A plaintiff may rely on such factors as whether the defendant makes sales, solicits, or engages in business in the forum state, serves the state's markets, designates an agent for service of process, holds a license, or is incorporated there. *See id.* A defendant whose contacts with the forum are substantial, continuous, and systematic is subject to a court's jurisdiction even if the suit concerns matters not arising out of his contacts with the forum. *See Glencore Grain Rotterdam B.V. v. Shivnath Rai Harnarain Co.*, 284 F.3d 1114, 1123 (9th Cir. 2002).

To establish specific personal jurisdiction, a plaintiff must plead that (1) the

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¹ Bergan is the only one of the Oklahoma Defendants that apparently concedes personal jurisdiction and does not move to dismiss on this ground.

defendant has purposefully directed his activities to, or consummated some transaction with, the forum or a resident thereof; or performed some act by which he purposefully availed himself of the privilege of conducting activities in the forum, thereby invoking the benefits and protections of its laws; (2) the claim is one that arises out of or relates to the defendant's forum-related activities; and (3) the exercise of jurisdiction comports with notions of fair play and substantial justice. *Dole Food*, 303 F.3d at 1111.

Here, Plaintiff's complaint alleges that the Oklahoma Defendants purposefully directed their activities toward California by introducing defective gasoline containers into the stream of commerce with knowledge that doing so would harm consumers located in California. Plaintiff's theory appears to be that Blitz's sale of defective gas containers in California establishes personal jurisdiction over the Oklahoma Defendants because (1) they directly participated in, controlled, or specifically authorized Blitz's sales of the defective products such that they are individually liable for tortious conduct, or (2) they operated and utilized Blitz's corporate entity without regard for corporate formalities, such that the "alter ego," or "veil-piercing," doctrine should apply.

Plaintiff's allegations are insufficient to establish specific jurisdiction, however, because Plaintiff's claims against the Oklahoma Defendants do not arise from their alleged forum-related activities. Although Plaintiff maintains in his opposition that he is suing the Oklahoma Defendants because they injured him by distributing a defective gasoline container, Plaintiff's complaint in fact alleges only two causes of action against the Oklahoma Defendants: (1) "Piercing the Corporate Veil and Joint Enterprise Liability," and (2) "Fraudulent Conveyance." According to Plaintiff's complaint, these claims arise from the Oklahoma Defendants' alleged diversion of Blitz's corporate funds and efforts to avoid products liability by abusing and manipulating Blitz's corporate form—conduct that occurred, if at all, entirely outside of California. Thus, the relationship between Plaintiff's claims and the

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Oklahoma Defendants' forum-related contacts is too tenuous to support specific personal jurisdiction. *See Doe v. Am. Nat. Red Cross*, 112 F.3d 1048, 1051–52 (9th Cir. 1997) (noting that, in the Ninth Circuit, a claim is related to a defendant's forum-related activities if the plaintiff would not have a cause of action "but for" the defendant's contacts with the forum).

Plaintiff's allegations are also insufficient to establish general jurisdiction over the Oklahoma Defendants. The Oklahoma Defendants' alleged participation in, or control over, Blitz's introduction of defective gas containers into the stream of commerce, without more, does not establish the type of "substantial, continuous, and systematic" contacts that approximate physical presence and justify the exercise of general personal jurisdiction. Accordingly, the Court **GRANTS** the motions to dismiss for lack of personal jurisdiction.

MOTIONS TO DISMISS FOR FAILURE TO STATE A CLAIM 1. Legal Standard

Federal Rule of Civil Procedure 12(b)(6) permits a party to raise by motion the defense that the complaint "fail[s] to state a claim upon which relief can be granted," generally referred to as a motion to dismiss. The Court evaluates whether a complaint states a cognizable legal theory and sufficient facts in light of Federal Rule of Civil Procedure 8(a), which requires a "short and plain statement of the claim showing that the pleader is entitled to relief." Although Rule 8 "does not require 'detailed factual allegations,' . . . it [does] demand[] more than an unadorned, the-defendant-unlawfully-harmed-me accusation." *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (quoting *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555 (2007)). In other words, "a plaintiff's obligation to provide the 'grounds' of his 'entitle[ment] to relief' requires more than labels and conclusions, and a formulaic recitation of the elements of a cause of action will not do." *Twombly*, 550 U.S. at 555 (citing *Papasan v. Allain*, 478 U.S. 265, 286 (1986)). "Nor does a complaint suffice if it tenders 'naked assertion[s]' devoid of 'further factual enhancement." *Iqbal*, 556

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U.S. at 677(citing *Twombly*, 550 U.S. at 557).

"To survive a motion to dismiss, a complaint must contain sufficient factual matter, accepted as true, to 'state a claim to relief that is plausible on its face." *Id.* (quoting *Twombly*, 550 U.S. at 570); *see also* Fed. R. Civ. P. 12(b)(6). A claim is facially plausible when the facts pled "allow[] the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." *Id.* (citing *Twombly*, 550 U.S. at 556). That is not to say that the claim must be probable, but there must be "more than a sheer possibility that a defendant has acted unlawfully." *Id.* Facts "merely consistent with' a defendant's liability" fall short of a plausible entitlement to relief. *Id.* (quoting *Twombly*, 550 U.S. at 557). Further, the Court need not accept as true "legal conclusions" contained in the complaint. *Id.* This review requires context-specific analysis involving the Court's "judicial experience and common sense." *Id.* at 678 (citation omitted). "[W]here the well-pleaded facts do not permit the court to infer more than the mere possibility of misconduct, the complaint has alleged—but it has not 'show[n]'—'that the pleader is entitled to relief." *Id.*

Moreover, "for a complaint to be dismissed because the allegations give rise to an affirmative defense[,] the defense clearly must appear on the face of the pleading." *McCalden v. Cal. Library Ass'n*, 955 F.2d 1214, 1219 (9th Cir. 1990). The Court will grant leave to amend unless it determines that no modified contention "consistent with the challenged pleading . . . [will] cure the deficiency." *DeSoto v. Yellow Freight Sys., Inc.*, 957 F.2d 655, 658 (9th Cir. 1992) (quoting *Schriber Distrib. Co. v. Serv-Well Furniture Co.*, 806 F.2d 1393, 1401 (9th Cir. 1986)).

2. Analysis

The Oklahoma Defendants also move to dismiss Plaintiff's Seventh Cause of Action on the ground that neither California nor Oklahoma law recognizes a substantive cause of action for "Piercing the Corporate Veil" or "Joint Enterprise Liability." They contend that the alter ego, or veil-piercing, doctrine is merely a

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procedure in which courts disregard the corporate entity in order to impose liability on stockholders for acts done in the name of the corporation. Similarly, they also maintain that the doctrine of joint enterprise liability is a procedure for extending liability, rather than a substantive claim. Accordingly, the Oklahoma Defendants argue that Plaintiff's failure to allege any substantive tort liability against them or against Blitz renders the veil-piercing and joint enterprise doctrines irrelevant.

Under California law, courts apply a two-part test to determine whether the alter ego doctrine should be invoked to hold an individual liable for acts of a corporation. *See Automotriz Del Golfo De California S.A. v. Resnick*, 306 P.2d 1, 3 (Cal. 1957). First, there must be such unity of interest and ownership that the separate personalities of the corporation and the individual no longer exist. *Id.* Second, there must be evidence that, if the acts in question are treated as those of the corporation alone, an inequitable result will follow. *Id.*

Numerous factors are relevant to this inquiry, such as the failure to follow corporate formalities, commingling of corporate assets with personal assets, diversion of corporate assets for personal use, and failure to provide sufficient capital to cover risks created through a corporation's activities. *See Associated Vendors, Inc. v. Oakland Meat Co., Inc.*, 26 Cal. Rptr. 806, 813 (Cal. Ct. App. 1963). Nevertheless, no single factor is dispositive, and courts assess the totality of the circumstances before applying the doctrine. *See Sonora Diamond Corp. v. Superior Court*, 99 Cal. Rptr. 2d 824, 836 (Cal. Ct. App. 2000) (citing *Talbot v. Fresno-Pacific Corp.*, 5 Cal. Rptr. 361, 366 (Cal. Ct. App. 1960)).

Similarly, the doctrine of joint enterprise liability is recognized in California and permits courts to hold one member of a common enterprise liable for the torts of another member. *See Berg & Berg Enters., LLC v. Sherwood Partners, Inc.*, 32 Cal. Rptr. 3d 325, 339 (Cal. Ct. App. 2005). The doctrine is applied when one person, who does not actually commit a tort himself, shares with the immediate tortfeasors "a common plan or design" in the perpetration of the harm. *Id.*

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Here, Plaintiff alleges that the Elmburgs and Flick illicitly transferred Blitz's funds to artificial corporate entities, including Crestwood Holdings and Bergan, to prevent tort claimants from recovering for their injuries. According to Plaintiff, the Elmburgs and Flick failed to observe corporate formalities and managed Blitz and its related entities in such a manner that Blitz's separate corporate identity ceased to exist.

Plaintiff's claim fails, however, because there is no substantive cause of action for alter ego or joint enterprise liability. The alter ego and joint enterprise doctrines are procedural mechanisms that allow a tort claimant to recover from an individual, or a related entity, for harm caused by a corporation; they are not themselves substantive bases for liability. *See Berg*, 32 Cal. Rptr. 3d at 339. Although Plaintiff contends in his opposition that he is actually suing the Oklahoma Defendants for distributing the defective product that injured him, Plaintiff does not allege any torts or other causes of action against either Blitz or the Oklahoma Defendants that might serve as a substantive basis for liability. Plaintiff's Seventh Cause of Action thus appears to be no more than a stand-alone claim for "Piercing the Corporate Veil and Joint Enterprise Liability." For this reason, the Court **GRANTS** the Oklahoma Defendants' motion to dismiss the Seventh Cause of Action for failure to state a claim.

MOTIONS TO DISMISS FOR LACK OF STANDING

1. Legal Standard

A party may move to dismiss a claim for lack of standing under Federal Rule of Civil Procedure 12(b)(1). *See* 5B Charles Alan Wright & Arthur Miller, *Federal Practice and Procedure* § 1350 (3d ed. 2004). "When subject matter jurisdiction is challenged under Federal Rule of [Civil] Procedure 12(b)(1), the plaintiff has the burden of proving jurisdiction in order to survive the motion." *Tosco Corp. v. Cmtys. for a Better Env't*, 236 F.3d 495, 499 (9th Cir. 2001) (abrogated on other grounds by *Hertz Corp. v. Friend*, 559 U.S. 77 (2010)). "Unless the jurisdictional

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issue is inextricable from the merits of a case, the court may determine jurisdiction on a motion to dismiss for lack of jurisdiction under Rule 12(b)(1)...." Robinson v. United States, 586 F.3d 683, 685 (9th Cir. 2009) (internal citations omitted). "A Rule 12(b)(1) jurisdictional attack may be facial or factual. In a facial attack, the challenger asserts that the allegations contained in a complaint are insufficient on their face to invoke federal jurisdiction. By contrast, in a factual attack, the challenger disputes the truth of the allegations that, by themselves, would otherwise invoke federal jurisdiction." Safe Air for Everyone v. Meyer, 373 F.3d 1035, 1039 8 (9th Cir. 2004). 10 2. Analysis

The Oklahoma Defendants also move to dismiss on the ground that Plaintiff lacks standing to bring his Ninth Cause of Action for fraudulent conveyance.² They maintain that the trustee in Blitz's bankruptcy has exclusive standing to bring such a claim.

California law permits creditors to file actions to avoid fraudulent transfers made by a debtor after the creditor's claim arose. See Cal. Civ. Code §§ 3439.04, 3439.05, 3439.07. After a bankruptcy petition has been filed, however, only the trustee or debtor-in-possession has standing to assert a fraudulent transfer claim. See In re Lockwood, 414 B.R. 593, 602 (Bankr. N.D. Cal. 2008) (citing In re Pac. Gas & Elec. Co., 281 B.R. 1, 13 (Bankr. N.D. Cal. 2002). A creditor may not exercise control over the fraudulent transfer cause of action absent permission from the bankruptcy court or assignment or abandonment of the claim by the trustee. See id.

Here, Plaintiff appears to concede that the fraudulent transfer claim has not been abandoned or assigned and that he needs the bankruptcy court's permission to proceed with his claim. Although Plaintiff contends that the Official Committee of

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² The Oklahoma Defendants also contend that Plaintiff lacks standing to bring his claim for Piercing the Corporate Veil and Joint Enterprise Liability. As the Court has already granted a motion to dismiss this claim on an alternative basis, the Court will only address the issue of standing with respect to Plaintiff's fraudulent conveyance claim.

1	Unsecured Creditors in Blitz's bankruptcy has moved for a court order granting
2	permission to proceed with such claims against the Kinderhook Defendants, Plaintiff
3	provides no evidence that the bankruptcy court has granted any requested relief.
4	Accordingly, the Court GRANTS the Oklahoma Defendants's motion to dismiss
5	Plaintiff's fraudulent conveyance claim for lack of standing.
6	MOTIONS TO STRIKE
7	As the Court has dismissed both Plaintiff's Seventh and Ninth Causes of
8	Action—the only claims asserted against the Oklahoma Defendants in this case—the
9	Court DENIES AS MOOT the motions to strike Plaintiff's request for relief in the
10	form of punitive damages and attorney's fees.
11	CONCLUSION
12	For the reasons stated above, the Court GRANTS the Oklahoma Defendants'
13	motions to dismiss, DENIES AS MOOT the motions to strike, and DISMISSES
14	WITHOUT PREJUDICE Plaintiff's Seventh and Ninth Causes of Action. Plaintiff
15	may file an amended complaint curing the jurisdictional and substantive deficiencies
16	noted by the Court within 14 days of the date that this Order is electronically
17	docketed.
18	IT IS SO ORDERED.
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20	DATED: September 18, 2013
21	Honorable Janis L. Sammartino United States District Judge
22	United States District Judge
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